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C O N F I D E N T I A L SECTION 01 OF 02 KHARTOUM 000147

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AF/SPG, SE WILLIAMSON AND EEB/IFD/OMA
DEPARTMENT PASS TREASURY FOR OIA AND USED IMF

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SUBJECT: GOS STRENGTHENS MINISTRY OF FINANCE, IMPROVES
TRANSPARENCY, FIRES UNDERSECRETARY

Classified By: CDA Alberto Fernandez, Reason: Section 1.4 (b) and (d)

¶1. (C) SUMMARY: In a January 29 meeting with emboffs, Wabel Abdallah, the Sudan resident representative of the International Monetary Fund (IMF), stated that the recent firing of the Undersecretary at the Ministry of Finance (MOF) is very positive and long overdue. Abdallah stated that this move, along with revenue reform and Sudan's first transparent and modern budget (septel), will greatly improve the Ministry of Finance. Abdallah concluded that these improvements will ultimately strengthen the regime's authority as well as stability in the country, without inhibiting the ruling elite's ability to siphon off oil revenue before it ever reaches the MOF. END SUMMARY.

HIT THE ROAD MAK

¶2. (C) On January 28, a Presidential decree dismissed the undersecretary at the MOF, Sheikh El-Mak, appointing Dr. El-Tayib Abu Ganaya to the position. A day later, Abdallah told emboffs that the former undersecretary, Sheikh El-Mak, was incompetent, controlling, and power-hungry, and that it is likely President Bashir made this decision himself. According to Abdallah, Al-Mak was an irresponsible manager, over-estimating revenues, contracting expenditure, and issuing debt in unique and creative ways. Abdallah stated that in his short time at the Ministry of Finance, Al-Mak led the Ministry of Finance into significant domestic arrears, building an incredible amount of domestic debt. Al-Mak was so fond of running up debt at the MOF that he preferred the term "resource" for "revenue," seeing debt as one avenue for gaining more revenue. According to Abdallah, Al-Mak issued a variety of debt instruments (Islamic "sanadat," standing orders, and guarantees) from multiple offices. According to Abdallah, it will be almost impossible to determine the total amount of domestic debt that El-Mak issued until it becomes due. Abdallah stated that this poor management motivated other GoS agencies to avoid the MOF, choosing instead to manage their own finances and independent revenue sources (often by establishing parastatal companies). Abdallah said that he advocated for El-Mak's dismissal for the last two years and that he was very pleased by the decision.

OTHER IMPROVEMENTS

¶3. (C) Abdallah described other, simultaneous improvements at the Ministry of Finance. In 2008 Sudan adopted the Government Finance Statistics (GFS) model of budgeting. According to Abdallah this will be Sudan's first transparent and modern budget (septel), "the highest quality budget in the Arab world," and the GFS process will prevent future abuses such as Mak's. He also said that the MOF initiated a revenue reform project that will remove exemptions and "level

the playing field for the tax base." Abdallah added that the new undersecretary, Dr. Ganaya, Abdallah, has the reputation as a reformer who will be the right person to "put the MOF back on track." Abdallah emphasized that the macro-economic stability brought by these improvements will strengthen and support the regime, as there will be more accountability, transparency, and efficiency at the MOF. The improvements will also promote stability as the GOS will be able to be able to better control its finances and prevent shortfalls, which have on several occasions impacted its ability to pay obligations over the last year - and on one occasion affected the government's ability to pay pensions to veterans.

CHALLENGES REMAIN

14. (C) Abdallah noted, however, that a number of challenges remain at the MOF. He stated that the Minister of Finance Al-Zubair Ahmed El Hassan owes his position to political skill, rather than technical or managerial ability. He stated that Zubair spends little time at the Ministry, delegating much authority to the undersecretary and state minister. "The absence of Zubair gave the undersecretary (Mak) the opportunity to behave as he did," said Abdallah. Abdallah stated that Zubair is a regime hard-liner, close to Bashir, and "a real believer in the Islamic ideology that brought this regime to power." Zubair went so far as to order the word "interest" stricken from all Ministry accounts as un-Islamic. Zubair took the lead in 2006 in aggressive efforts to block a new U.S. NEC for Khartoum, efforts which have largely succeeded.

15. (C) According to Abdallah, although improvements to the MoF will lead to more transparency and accountability, diversion of oil revenues probably will still continue. Abdallah said that it is likely that oil revenues are

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siphoned off to the ruling elite and its supporters before it is ever accounted for at the MoF. Abdallah also provided a very negative assessment of the institutional capacity and economic viability of Southern Sudan (septel).

16. (C) COMMENT: Abdallah's glowing assessment of the improvements at the MOF should be taken with a grain of salt, especially as he is the lead consultant for budget reform. Nonetheless, Abdallah is right that these developments will only strengthen the regime in the long run -- and will strengthen one of its most important ministries after the Ministry of Defense and the intelligence apparatus. It should also be emphasized that, although he was not certain exactly how it is done, Abdallah was confident that the ruling elite siphons off massive amounts of oil money long before it ever reaches the MOF. END COMMENT.

BIO NOTE

17. (U) The new Minister of Finance, Dr. El-Tayib Abu Ganaya, received a PhD from the University of Khartoum in economics. He served as Director for the Financial and Administration bureau at the Office of the Presidency, the deputy director of the Sudanese Currency Company, and the director the internal auditing department at the Ministry of Finance.

FERNANDEZ